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C O N F I D E N T I A L SECTION 01 OF 02 DHAKA 000691

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COMMERCE FOR SLEWIS-KHANNA AND TFOX

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SUBJECT: GOB CONSIDERING A SOVEREIGN GUARANTEE FOR THE  
BOEING DEAL

REF: DHAKA 540

Classified By: Ambassador James F. Moriarty, Reasons 1.4 (b) and (d)

#### SUMMARY

1. (C) The Government of Bangladesh (GOB) is reluctant to provide a sovereign guarantee for the Boeing aircraft deal, but the Ambassador and a Boeing representative told the Prime Minister July 12 that a sovereign guarantee was the only way Bangladesh's national airline could secure financing to buy the aircraft. Boeing could deliver two planes early and Citibank pledged to finance the deal, so long as the GOB provided a sovereign guarantee by September, the Boeing rep stressed. While GOB leaders from the Prime Minister on down said they wished to revitalize the ailing national airline, Biman, they have not yet committed to providing the needed guarantee. Contacts close to Biman reported some powerful individuals in the government and Biman were looking for ways to punch holes in the deal since it did not involve any kickbacks.

#### TIME TO IMPLEMENT THE BOEING DEAL

2. (C) Boeing representatives and Mission Dhaka, led by the Ambassador, emphasized to the Prime Minister, Finance Minister, Civil Aviation Minister and the board of Biman Bangladesh airlines that the GOB needed to act soon to keep Biman's purchase of eight Boeing aircraft on track. In briefings to key GOB leaders July 4-12, Boeing and Mission Dhaka described how Citibank had stepped forward to lead a consortium of banks, mainly from the Middle East, in financing the purchase of aircraft worth as much as \$2 billion. Critical to securing this financing was a sovereign guarantee from the GOB, which would commit the government to making payments on the aircraft loans should Biman default.

3. (C) While GOB leaders voiced a commitment to revitalizing Biman, they questioned the need for a sovereign guarantee. Given the global financial crisis, Boeing opined that no investors would loan money to Biman without GOB backing. Boeing noted it was highly unlikely the GOB would have to take over payments for Biman in this deal, as the aircraft supplied under the Biman-Boeing contract would bring revenue that would cover the loan payments and operating costs and would turn Biman into a profit-making enterprise.

14. (C) Miguel Santos, the leader of the Boeing team, pointed out that in 1996 Biman had 58 percent of the Bangladesh passenger airline market. That market share had now shrunk to 26 percent. Biman's fleet of decrepit aircraft prevented the airline from making a profit and from maintaining routes worldwide. Three of the four DC-10s that flew Biman's long-haul routes were almost 30 years old, Santos said, and needed to be retired. High fuel and maintenance costs for these aircraft meant that Biman was losing money, and the aging aircraft needed repeated overhauls, which prevented them from flying. Santos also voiced grave concern about the safety of flying aircraft that old. No other airline in the world used DC-10s for passengers.

15. (C) The new Boeing aircraft were larger, more fuel-efficient and safer, Santos said. They would cut Biman's costs and quickly make money for the airline. In addition to supplying the aircraft, Santos cited Boeing's support for interim aircraft leases prior to delivery of the planes, adding that Boeing had begun to transform Biman's information technology infrastructure to help modernize the airline.

GOB WILL CONSIDER SOVEREIGN GUARANTEE

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16. (C) The Prime Minister, Finance Minister and Aviation Minister voiced support for the Boeing deal and the way it could transform Biman. They pledged to consider the

DHAKA 00000691 002 OF 002

sovereign guarantee. They were pleased to learn the guarantee would cover portions of the deal as needed and not the full amount of the purchase for the life of the financing. Santos said that at its largest point, the sovereign guarantee would cover \$630 million. Prime Minister Sheikh Hasina said she would consult with the Finance and Civil Aviation Ministers on the guarantee. When pressed, the Finance Minister expressed hope the GOB could resolve the matter by the end of July.

COMMENT

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17. (C) GOB leaders were clearly looking for ways to avoid providing a sovereign guarantee, but they seemed to understand that global financial pressures and the fragile state of Biman would require a guarantee for the Boeing deal to move forward. Sources close to Biman reported that some, including the new Chairman of Biman, were looking for ways to scuttle the deal because it didn't involve kickbacks for him. Critics have latched on to the fact that the 2007-2008 Caretaker Government, which concluded the deal, failed to inform the Awami League government about the sovereign guarantee requirement. We highlighted for the GOB, including the Prime Minister, the fact that since the deal was concluded in June 2008, the world of finance had changed. A year ago a sovereign guarantee may have been optional, but under current conditions it was required.

18. (C) We will need to press the GOB to ensure it lives up to its commitments under this deal. Boeing plans to seek support from interested Congressional representatives in helping to keep the deal on track. This issue is important and should figure into remarks for USG officials who meet Senior GOB counterparts at UNGA... and elsewhere.

MORIARTY